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# NOTES

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## WASHINGTON NOTES

### PROGRESS OF THE TARIFF BILL

By a large party majority of 281 to 139, the House of Representatives on Thursday, May 8, passed the Underwood tariff bill which has been under consideration in that body for about two weeks. The final vote was larger even than had been expected. Hardly any opposition to the bill was allowed to develop within the ranks of the majority; only five Democratic members voted in opposition to the dictates of the leader. The bill has now been sent to the Senate Finance Committee from which it will probably be reported as soon as an agreement can be arrived at with reference to the changes that must be made in order to control a majority on the floor. Just what these changes must be is now the question which is absorbing most attention in all quarters.

The principal opposition, as has been developed during the discussion in the lower chamber, seems to be found among textile manufacturers, dealers in metals and their products, and makers of chemicals. It had been expected that very great antagonism would be shown by the farming class, because of the changes made in the agricultural paragraphs. Apparently these rates have not been sufficiently cut to cause decided and general opposition, so that it may fairly be said that the only agricultural interests deeply concerned in the matter are those engaged in the production of raw wool and sugar. The sugar interest is quite as largely manufacturing as it is agricultural in nature. Thus the raw-wool growers remain very nearly the only group of farmers who have taken a strong stand against the changes in duty, although allied with them will undoubtedly be the sugar-planters of Louisiana and Hawaii and the beet-producers who have developed that industry in about half a dozen important states. In the Senate the sugar and wool interests are likely to combine with the textile interests, particularly the cotton manufacturers and the producers of woollens. The silk-makers are few in number, relatively speaking, and have been left with a tolerably high duty so that they are not likely to take a very active part. The other interests antagonized by the tariff, such as iron and steel manufacturers, chemical-makers, and allied trades, will be less

active than the men at the core of the organized opposition. President Wilson's task will, therefore, be that of breaking up the group which acts under the dictation of the producers just enumerated. It is not certain how many votes these men can control, but at the present writing it would seem that, if they are able to hold strongly together, they might shift a half-dozen votes and thereby turn a Democratic majority into a minority, so narrow is the margin upon which the control of the Senate now depends. In such an event, however, the question would arise whether President Wilson could not get an equal number of votes from the Progressive Republicans, thereby neutralizing the votes of those members of his own party which he had lost. It is probable that some votes can be gained in this way, but in order to get the number he needs he would have to make concessions to the high-tariff propensities of these Progressives, whose radicalism is not very much in evidence when the tariff is at stake. Just what these concessions would have to be is still doubtful, but they probably would include the placing of a moderate duty on wool and the raising of rates on woollens to correspond, as well as the revision of the cotton schedule so as to give more protection to the finer qualities of goods. Perhaps the beet-sugar men might be able to force the retention of a certain amount of duty on sugar after the end of the three years allowed by the present draft of the bill to elapse prior to the time when sugar is made free.

For purposes of permanent record it is worth while to note the exact changes which were made while this tariff bill was in the course of passage through the House of Representatives. The measure was originally introduced as H.R. 10 at the opening of the extra session on April 7. It then was taken almost immediately into a party caucus for the purpose of securing the assent of the members of the Democratic party to the proposed rates. The caucus made many alterations of which no official record exists and which can be ascertained only by comparing the text of the two bills. Such a comparison between the bill H.R. 10 originally offered and the bill H.R. 3321 finally passed shows interesting modifications. (See table, p. 557.)

Of the changes thus tabulated all were made in caucus with the exception of those relating to jacquard figured goods, sweetened chocolate, and asphalt. It must not be supposed, however, that this represents the relative importance of the work done in caucus and on the floor. The work on the floor, while not altering many actual rates, greatly changed the language of the paragraphs in a considerable number

of cases. In all nearly 90 paragraphs were thus changed, although in some of them the alterations were unimportant.

ARTICLE	H.R. 10		H.R. 3321	
	Paragraph Number	Rate	Paragraph Number	Rate
Phosphoric acid, per lb. ....	1	2c	398	Free
Blood albumen, per lb. ....	4	2c	403	Free
Calcium carbide. ....	15	10%	450	Free
Indigo. ....	39	10%	519	Free
Licorice, unground. ....	42	$\frac{1}{2}$ c	40	$\frac{1}{2}$ c
Magnesite, not purified, per ton. ....	45	\$1	543	Free
Other fish oil, per gallon. ....	47	5c	45	3c
Castor oil, per gallon. ....	48	15c	46	12c
Salts of metals. ....	68	15%	66	10%
Vanilla beans, per lb. ....	73	50c	71	30c
Limestone rock asphalt. ....	80	50c	78	25c
Manufacturing pumice, per lb. ....	79	$\frac{1}{2}$ c	77	$\frac{1}{2}$ c
Rough block onyx, per cubic ft. ....	101	65c	99	75c
Shoe machinery. ....	169	15%	451	Free
Buckwheat, per bushel. ....	197	8c	445	Free
Rye, per bushel. ....	201	10c	594	Free
Castor beans or seeds, per bushel. ....	221	20c	217	15c
Sweetened chocolate. ....	240	8%	236	2c lb-25%
Mineral waters ( $\frac{1}{2}$ pint), per doz. bottles. ....	258	15c	254	10c
Jacquard figured goods. ....	267	35%	263	30%
Underwear. ....	270	25%	266	30%
Linoleum, plain. ....	289	15%	285	20%
Jute fabrics (single yarns). ....	292	25%	288	20%
Woven fabrics and shirting cloth. ....	296	30-50%	292	35%
Decalcomanias. ....	337	30%	333	20%
Cut precious stones. ....	372	15%	368	20%
Umbrellas. ....	398	30%	394	35%

Turning to the non-tariff sections of the bill—those relating to the income tax and the customs administrative system—it is found that very few actual modifications were made. Perhaps the most important in connection with the income tax is found in the change of language defining net income and excluding from classification as net income returns made to insured persons upon the expiration of endowment of annuity contracts. A further change of some interest relates to the method of paying the tax at the source, a part of the provision on that topic being made to read as follows:

In all cases where the income tax of a person is withheld and deducted and paid or to be paid at the source as aforesaid, such persons shall not receive the benefit of the exemption of \$4,000 allowed herein, except by an application for

refund of the tax, unless he shall, not less than thirty days prior to the day on which the return of his income is due, file with the person who is required to withhold and pay tax for him, an affidavit claiming the benefit of such exemption.

Another change in the insurance provision has been made by directing that mutual fire insurance companies requiring their members to make premium deposits to provide for losses and expenses, shall not return as income any portion of the premium deposits returned to their policyholders, but shall return as taxable income all income received by them from all other sources plus such portions of the premium deposits as are retained by the companies for purposes other than the payment of losses and expenses and reinsurance reserves. The important feature here is the addition of the words "and reinsurance reserves." These words have likewise been added at subsequent points in the section wherever needful to exempt the reinsurance reserves from inclusion as taxable income. Other changes were of a purely formal nature for the most part. The customs administrative provisions, although subjected to very great criticism in many quarters on the ground that they were unduly severe in their effect upon importers, have thus been practically sustained. So unfavorably are they regarded by foreigners, however, that the representative of the French government has very recently informed the authorities at Washington that in the event the law is passed in the condition it has now assumed, the conditions thereby produced will lead to retaliation by that government, probably in the form of applying the maximum tariff rates described in the French law. Should such a plan be followed, the effect would undoubtedly be to inflict considerable hardship upon the producers who are engaged in business with that country.

#### A NOTEWORTHY TARIFF DOCUMENT

In connection with the new tariff bill it is worth while to note the issuance of one of the most thorough tariff documents ever published by the government. This is House Report No. 5 (63d Congress, 1st session, to accompany H.R. 3321, published April 21, 1913). The report first makes a general survey of the tariff situation, and then offers one of the most elaborate and detailed comparisons of rates and of imports ever prepared. The text of the report, in explaining the reasons for, and methods of, revision, gives the most clear-cut idea which has yet been furnished of the purposes in the minds of those who framed the act. On this point the committee says (referring to the platform pledges already given):

We believe that this pledge contains two essential ideas, both of which have been applied in the formulation of H.R. 3321 as follows:

1. The establishment of duties designed primarily to produce revenue for the government and without thought of protection.
2. The attainment of this end by legislation that will not injure or destroy legitimate industry.

It is a fact that in many lines of business the system of protection has been carried to such a point as to put business into an artificial condition and to induce the upbuilding of many establishments not needed and so uneconomically conducted as to preclude them from doing business except by virtue of special favor granted them through government action. If these establishments stood alone today, there would be no reason why the special privileges accorded to them should not be instantly wiped out. If as a result of the elimination of excessive protection, ill-equipped and badly organized factories should find it necessary to discontinue operations, the country would be the richer on that account, since its capital would be diverted into productive channels, and it would be enabled to devote itself exclusively to healthy enterprises yielding a reasonable return.

The business enterprises which have been artificially created at an unwarranted expense do not stand alone, but have staffs of employees who are immediately concerned in their maintenance and to whom the necessity of shifting their operations would be a hardship. There are complex commercial relationships partially developed under, or dependent upon, the existing tariff which it would be unfair and unwise suddenly to disturb. This does not mean that there should never be a beginning in the task of eliminating these evils. On the contrary, it shows the necessity of beginning the task promptly. It, however, emphasizes the necessity of carrying through the transition to a state where business enterprises will be obliged to rest upon their own bases without government support, in such a way as to avoid unnecessary jars to trade and to give every opportunity for reasonable adjustment, so that the shift may be made without unnecessary displacements of labor and capital. The committee has had these facts in mind in the preparation of H.R. 3321 and the attempt has been made—

1. To eliminate protection of profits and to cut off the duties which enable industrial managers to exact a bonus for which no equivalent is rendered.
2. To introduce in every line of industry a competitive tariff basis providing for a substantial amount of importation, to the end that no concern shall be able to feel that it has a monopoly of the home market gained other than through the fact that it is able to furnish better goods at lower prices than others.

It is felt that tariff schedules aiming at these two conditions can damage no legitimate industry and are the least that can be asked by those who desire the consumer to be safeguarded in some measure against exploitation by monopolies that now practically dictate prices in the domestic field.

## RENEWED PETITION TO ADVANCE FREIGHT RATES

Long-expected action has been taken by the railroads running through "official classification territory" (which is that district lying east of Chicago and north of the Ohio and Potomac rivers), in filing with the Interstate Commerce Commission schedules providing for an increase of 5 per cent in freight rates. This is a resumption of the effort made in 1910, shortly after the opening of the Taft administration, to secure an advance in rates. Since the 1910 attempt, which resulted in complete defeat through the reorganization of the Interstate Commerce Commission on a somewhat radical basis, the railroads have been in an increasingly difficult situation owing to their growing costs of operation. These growing costs have included a rise of about 50 per cent in the cost of capital and probably an increase of two-thirds of that amount in their cost of supplies and construction material. Wages have been advanced on several occasions, the last two being those which grew out of the demands made by the engineers in the summer of 1912 and the firemen in the spring of 1913. In both these cases arbitration resulted in the assignment of materially higher wages. Despite the fact that these increases in costs have been general, and despite the fact that freight traffic has been very heavy, there has been no increase in freight rates, the commission turning a deaf ear to practically every demand for an advance that was presented to it. Altogether the net revenue situation of some important roads has been decidedly unsatisfactory. Recent decreases in dividends have been the outcome of the difficult revenue position, and have of course added to the problems of getting new capital for use in railroad construction.

The present demand for a 5 per cent increase is more moderate than former requests. It is estimated that on the freight passing between New York and Chicago it would amount to an advance of between \$35,000,000 and \$40,000,000 in gross revenue. Of this total it is supposed that about 50 per cent would accrue to the three main systems, the Pennsylvania, the New York Central, and the Baltimore & Ohio. The total number of miles of line operated by the fifty eastern roads uniting in the present request is 47,205 and their operating revenues are \$1,095,604,377, while their operating expenses are \$768,056,843. This leaves a net operating revenue for all roads of \$327,547,534. When deductions from income for interest on funded debt and all other deductions are made, a net corporated income of \$168,356,193 is left. During the past fiscal year (ending June 20, 1912) there were declared, out of income,

dividends on preferred and common stock amounting in the aggregate to \$100,136,627. After allowing for betterments, etc., a net surplus for the year of \$43,861,557 existed, but thirteen of the roads reported a deficit instead of a surplus. It is thus seen on how narrow a margin the lines have been working of late.

The petition referred to, asking for the higher rates, was filed on Wednesday, May 15. It calls attention to the fact that in rendering an opinion in the advanced rate cases, in 1910, the Interstate Commerce Commission, after reviewing the outlook, indicated its willingness to reconsider its conclusions against higher rates in the light of future developments in the operations of the carriers. The petition says: "Your petitioners believe that the time has now arrived when the results of the operations of the carriers subsequent to the former consideration of this case should be laid before the commission." It is believed that the effect of the petition will be to afford a definite test of the attitude of the Wilson administration on the rate question, by showing whether it is disposed to enable the carriers to meet the existing revenue problems or not. In order to get a very definite test of the kind referred to, it has been deemed wise to keep the rate advance asked for down to an exceedingly moderate basis. Five per cent is probably about as little in the way of an advance as could be requested, and yet have the increase amount to anything in its effect upon revenues. It will be some time before any positive indication of the disposition of the commission or of the administration on this matter can be obtained. Meanwhile it is expected that the roads will do all they can with a view to convincing the public of their necessity for relief.